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K- 12 Public Education Executive Budget Proposal Summary and Tax Impact Analysis

There is much on the minds of the administration, educators, parents and students in this state. At the top of that list for many is this question: how can we work together to strengthen Montana's excellent education system while living within current budget constraints?

One reflection of the interest in public schools during the interim was the Governor's Public School Funding Advisory Council (hereafter referred to as the Advisory Council). This group held hearings across the state to find out what solutions are out there for K-12 funding. These are the people's recommendations and they received the highest consideration in preparing the budget.

Education, like much of Montana, is experiencing difficult financial times. There has been deserved attention about the possible need for increased appropriations to operate our public schools. Quality schools are a priority for the Martz Administration and this budget reflects that importance. The needs of educating our students are met in this budget, showing a sincere attempt to minimize any adverse impact to Montana's schools because of declining state revenues.

Proposal Summaries

Declining Enrollment and Fixed School Costs

In many areas of Montana's government the number of citizens utilizing services has steadily increased. Corrections, health services, and family assistance have all been asked to serve more Montanans. K-12 public education on the other hand has experienced a decreasing number of students. The peak enrollment in Montana's schools occurred in FY 1996 with 165,547 students. In FY 2004 enrollment is expected to be only 146,556 students. This is an 11.5 percent drop in the number of students over eight years. It is logical that fewer students will cost less money. Yet, the question arises as to how quickly can districts adjust to the lower number of students. Portions of school district budgets are fixed costs that take time to reduce. Currently, when a district loses a student, the ANB entitlement for that student is reduced in the following year. Districts have had a difficult time adjusting the fixed costs that quickly.

The Advisory Council looked at this issue and proposed using a three-year average for determining ANB. In developing this budget, the three-year average proposal had a very high priority. Understanding the importance of this proposal the administration examined the significant growth in recent years in the Treasure State Endowment Program interest. In 1992, the voters approved that this revenue be set aside for local infrastructure. The first year of this program was in FY 1994 with $928,696 in interest earnings for local infrastructure needs. In FY 2004, just ten years later, in excess of $8 million will be available for local infrastructure. In keeping with that intent, this proposal uses half of the interest from the Treasure State Endowment program for school facility payments currently paid for with general fund. The plan frees up over $4 million general fund each year, which will be used to begin three-year averaging in FY 2005.

Educator Recruitment and Retention

Montana is experiencing a shortage of educators in several areas. The shortage also extends outside of curriculum areas and severely impacts certain geographic areas in Montana. This is why the need for an educator recruitment program has long been recognized. This new program will help schools with critical shortages. The program would pay up to $12,000 toward student loans of new teachers over 4 years.
This program will also assist with the problem surrounding initial turnover. By accepting a loan repayment plan in exchange for four years of service, new teachers will be not be lost after their first year in education.

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Rising insurance costs and higher salaries in some other states are often cited as reasons for teachers to leave their job in Montana. The Advisory Council recognized the need for school insurance reform and the administration will be monitoring the several pieces of legislation already formulated. In particular we are interested in the statewide insurance pool that uses the purchasing ability of a very large group to improve benefits and services while keeping costs to a minimum.

Entitlement Increases

The level of school entitlements is also of concern for the administration. New avenues deserved exploration in order to meet the need of Montana's schools.

In looking at the entire school funding picture, and considering the significant amount of new federal revenue both in direct grants and Medicaid anticipated for schools, it became apparent that there would be increases in retirement as a result of these increases in federal programs.

Currently, the retirement costs for all personnel employed by the districts are charged to the state and county via the retirement fund. This means federal programs, transportation, food services, and the other funds charge the retirement, social security and unemployment insurance to the state and county taxpayers. This is an atypical accounting procedure. Usually federal grants pay for the full personal services costs associated with the new program. With the newly expanding federal programs, this is becoming a greater burden on taxpayers

The revenue to the retirement fund is primarily comprised of state general fund and county levies. When the district receives additional federal revenue for a specific purpose, it can augment that grant by the cost of the retirement, which is permissively charged to the county and state. With the significant increases in federal authority, this amount will be significant.

The administration has brought forth a proposal that changes statute to allow only salaries paid from the general fund to be charged to the retirement fund. It is anticipated to save the state general fund $4.3 million in FY 2004 and $3.6 million in FY 2005. Likewise, the proposal saves county taxpayers about $11 million per year. Tax relief is not the purpose of this proposal. In order keep taxpayers and districts reasonably close to the current law; the proposal offsets this reduction with a decrease in the direct state aid percentage from 44.7 percent to 42.6 percent. Both of these efforts combined create the ability to increase entitlements 2 percent in FY 2004 and 1 percent in FY 2005 and still remain within the targeted levels for K-12.

New Medicaid Eligibility for School Based Services

The Department of Health and Human Services (DPHHS) has historically provided the general fund match for school-based services under Medicaid. DPHHS, OPI and the Governor's Office have been working cooperatively to restructure school-based services, by using the $35 million general fund spent per year on special education as a match for Medicaid payments. DPHHS also proposes to revise rules for existing services and add new services that would qualify for coverage under Medicaid.

This proposal will allow schools to qualify for Medicaid funding for services that they currently provide under IEPs (Individual Education Plans) and simplify the process of submitting medical claims as much as possible. For example, an IEP may require a school to provide extensive Personal Care Aides for students with special needs. These services traditionally have not been a covered service under Montana Medicaid, but under the proposed changes these services will become a Medicaid covered service for school-based providers in Montana.

The proposed changes are also intended to refinance services such as the Comprehensive School and Community Treatment (CSCT) program. CSCT helped schools receive psychological services brought to students on their campuses. Unfortunately, budget reductions in the past year have eliminated the CSCT program.

The combination of these efforts should allow schools to replace the CSCT program, and help schools stretch their state special education funding farther. This proposal will bring stable funding that schools can rely on for Medicaid match. As a result of these changes for school-based services, up to $13 million in new federal funding could be available to schools in FY 2004 and each year thereafter.

Property Tax Impact Analysis

District tax changes are the result of decisions made by the state and the district. If the state increases entitlements there is a tax decrease except for those districts spending at the minimum level, which must increase the local share of spending. If the other districts choose to increase spending there will be a tax increase, as the entitlement increase adds to the taxing authority of the district.

Generally, under Montana's funding system if a district increases general fund spending, district property taxes will increase, if the state increases entitlements district property taxes will decrease. If enrollment declines and the district makes no attempt to achieve any related savings taxes will rise as the state aid is tied to enrollments.

The picture is more complicated when examining taxes vs. tax rates. With growth in the tax base (new construction) some increase in taxes can occur without an increase in tax rates. For the typical district the growth in tax base (irrespective of reappraisal) will allow some increase in expenditures without an increase in tax rates.

The property tax impact of these proposals should be roughly the same or possibly less than they would be under present law. County taxes for schools should decline slightly and district taxes should increase slightly. The mill levy change between county mills and district mills is on average about 5 mills. This is not a net increase in taxes, but a change between county and district mills.

- The Retirement accounting change mentioned above will require billing the retirement cost of federally hired staff to the federal funds. This reduces taxes at the county level by reducing the amount the district can charge to the Retirement fund. The anticipated average county tax reduction is about 5 mills.

- The reduction in the DSA from 44.7 percent to 42.6 percent results in an average district tax increase of about 5 mills in the Base budgets. Because the amount of savings from the Retirement accounting change is similar to the amount of the cost, these two tax changes are will not significantly impact taxpayers. Some taxpayers may pay slightly more, or slightly less than they did before, but as a whole the proposals are tax neutral.

- The Executive's ANB averaging proposal increases state aid for most districts in the state. All districts with declining enrollment will see a tax decrease unless the district is able to and chooses a budget higher than available under current law.

- The same holds true for the entitlement increase proposal. The 2 percent increase in FY2004 and 1percent increase in FY2005 will mean district property tax decrease unless the district is able to and chooses a budget higher than available under current law.

- When considering the impact of the TSEP redistribution, the entire proposal must be analyzed. Local property taxes will not increase as a result of this proposal. Projects currently eligible for a TSEP grant will either be delayed or will move forward with a sewer and water increases that are higher than the TSEP targeted levels. The administration's proposal also provides for an increase in the TSEP trust share of the coal tax leading to higher interest earnings and more projects in the future

Conclusion

Montana students achieve at some of the highest levels in the country. The administration understands that these results will begin to decline if we fail to help Montana's students. It is much easier to maintain a quality system than it is to build one.

That is why a message of hope for students is needed in these difficult times. They will continue to achieve at a high level and, when the financial difficulty is fading from memory, Montana's schools will still be strong.

The education budget recommendations of the administration are consistent with a balanced view of all services provided in the state. This budget continues that tradition of Montana's strong commitment to our students.